

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House  
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**FISCAL IMPACT STATEMENT**

**LS 7147**

**BILL NUMBER: SB 478**

**DATE PREPARED:** Jan 25, 2002

**BILL AMENDED:**

**SUBJECT:** Rainy Day Fund Formula.

**FISCAL ANALYST:** Chris Baker

**PHONE NUMBER:** 232-9851

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State

**Summary of Legislation:** This bill requires the Budget Director to determine the state's quarterly adjusted personal income and quarterly growth rate for each state fiscal quarter. The bill provides that any appropriations from the Rainy Day Fund to the state General Fund shall be determined on a quarterly basis. The bill provides that if the growth rate for the current state fiscal quarter is: (1) less than the growth rate for the immediately preceding quarter but is not a negative growth rate, the amount appropriated from the Rainy Day Fund to the state General Fund is 5% of the total state General Fund revenues for the current quarter; (2) less than the growth rate for the immediately preceding quarter and is a negative growth rate, the amount appropriated from the Rainy Day Fund to the state General Fund is 15% of the total state General Fund revenues for the current quarter; or (3) greater than or equal to the growth rate for the immediately preceding quarter, the amount appropriated from the Rainy Day Fund to the state General Fund is equal to zero. The bill also increases the amount of the balance in the Rainy Day Fund at the end of a state fiscal year that is needed to trigger an appropriation from the Rainy Day Fund to the Property Tax Replacement Fund from 7% to 14% of the total state General Fund revenues for the fiscal year.

**Effective Date:** July 1, 2002.

**Explanation of State Expenditures:** Under the bill, the Auditor of State would be required to certify the total amount of state General Fund revenue for the state fiscal quarter to the State Budget Director. The State Budget Agency would be required to determine the amount of appropriation into and from the state Counter-Cyclical Revenue and Economic Stabilization Fund (the Rainy Day Fund) for the state fiscal quarter. It is believed the Auditor of State and the Budget Agency could carry out these provisions within existing resources.

**Explanation of State Revenues:** *Rainy Day Fund Appropriations:* Under current law, if the annual growth rate in state adjusted personal income (the Rate) for the calendar year immediately preceding the current calendar year is less than -2% (negative two percent), an appropriation is made from the Rainy Day Fund to the state General Fund.

The formula for appropriation is as follows: total state General Fund revenue for the fiscal year ending in the current calendar year multiplied by -1 (negative one). This amount is then multiplied further by the difference in the Rate from the previous calendar year and 2%.

Under the bill, the appropriations from the Rainy Day Fund to the General Fund would be determined for transfer on a quarterly basis. Specifically, the bill would require the Budget Director to determine the quarterly adjusted personal income (QAPI) and the quarterly growth rate for Indiana.

QAPI would be determined by dividing quarterly state personal income less transfer payments by the implicit price deflator of GNP (Gross National Product). This result multiplied by 100 would give the QAPI. The quarterly percent change between the one quarter previous QAPI and the current QAPI would be used to determine transfers of funds from the Rainy Day Fund to the state General Fund.

If the change in QAPI in the current state fiscal quarter as determined above is positive yet less than the change in QAPI from the immediately preceding state fiscal quarter, there would be a transfer from the Rainy Day Fund to the state General Fund in the state fiscal quarter immediately following the current quarter.

The amount transferred would be the total state General Fund revenue for the current state fiscal quarter multiplied by 5%.

As an example, if the current quarter growth rate in QAPI were 2% and the immediately preceding quarterly growth rate in QAPI was 3%, there would be a transfer totaling 5% of the current state fiscal quarter General Fund revenue from the Rainy Day Fund.

If the change in QAPI in the current state fiscal quarter as determined above is negative and less than the change in QAPI from the immediately preceding state fiscal quarter, there would be a transfer from the Rainy Day Fund to the state General Fund in the state fiscal quarter immediately following the current quarter. The amount transferred under this condition would be the total state General Fund revenue for the current state fiscal quarter multiplied by 15%.

Under this scenario, if the current quarter change in QAPI were a -1% and the previous quarterly change in QAPI were 2%, an amount equal to 15% of the current quarter General Fund revenue would be transferred to the General Fund from the Rainy Day Fund.

*Background:* The following table illustrates the quarterly growth rate in QAPI (as defined by the bill), the Rainy Day Fund transfer percentage, and the approximate transfer amount (if the bill had been in effect during the fiscal year quarter).

Table A.

<b>FY Quarter</b>	<b>Total General Fund Revenue (Million \$)</b>	<b>Quarterly Growth Rate</b>	<b>Rainy Day Fund Transfer Percentage</b>	<b>One-Quarter Lag Transfer (Million \$)</b>
FY99Q1	1,715	1.0%	5.0%	
FY99Q2	1,618	1.0%	5.0%	85.8
FY99Q3	1,688	-0.1%	15.0%	80.9
FY99Q4	2,417	0.4%	0.0%	253.1
FY00Q1	1,796	0.7%	0.0%	
FY00Q2	1,646	1.3%	0.0%	
FY00Q3	1,671	0.2%	5.0%	
FY00Q4	2,419	1.1%	0.0%	83.6
FY01Q1	1,804	0.7%	5.0%	
FY01Q2	1,609	-0.5%	15.0%	90.2
FY01Q3	1,674	0.8%	0.0%	241.4
FY01Q4	2,314	0.0%	15.0%	
FY02Q1	1,779	NA	NA	347.1
FY02Q2	1,606	NA	NA	

*Rainy Day Fund Balance & the Property Tax Replacement Fund:* Under the bill, at the end of the state fiscal year, if the Rainy Day Fund exceeds 14% of the total state General Fund revenues for the state fiscal year, the excess would be appropriated from the Rainy Day Fund to the Property Tax Replacement Fund (PTRF). (Current law allows for excess transfers to PTRF from the Rainy Day Fund to occur if the Rainy Day Fund balance exceeds 7% at the end of a given state fiscal year). This would allow the Rainy Day Fund to accumulate larger balances.

The fiscal year-end Rainy Day Fund balances from FY 1999 - FY 2001, along with the proposed 14% cap, are presented in the following table:

Table B. Fiscal Year-End Rainy Day Fund Balance

<b>Fiscal Year</b>	<b>Rainy Day Fund Balance @7 % Cap (Millions)</b>	<b>Rainy Day Fund Balance @ 14% Cap (Millions)</b>
1999	\$524.7	\$1,049.4
2000	\$539.9	\$1,079.8
2001	\$526.0	\$1,052.0

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** State Budget Agency, Auditor of State, Treasurer of State.

**Local Agencies Affected:**

**Information Sources:** State Budget Agency: FY 1989 -1995 & FY1999-2001 State Budget Agency Report of Monthly Revenue Collections, FY 1989-2001 Year-End General Fund, Property Tax Replacement Fund and Rainy Day Fund Summaries, December 19, 1997, through November 14, 2001, Revenue Forecast Methodologies; US Department of Commerce, Bureau of Economic Analysis.